

COPY

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

FILED

JUL 03 2007

IN THE MATTER OF THE PETITION OF)
TWIN LAKES UTILITIES, INC. FOR AN)
INCREASE IN ITS RATES AND CHARGES)
FOR WATER AND WASTEWATER UTILITY)
SERVICE)

CAUSE NO. 43128 INDIANA UTILITY
REGULATORY COMMISSION

SETTLEMENT AGREEMENT

The undersigned parties ("Parties"), in compromise and settlement of the issues in this Cause, enter into this settlement agreement ("Settlement"), pursuant to which they agree that:

1. Water Utility Income under Current Rates. Petitioner's pro forma water utility operating revenue was \$830,300 under current rates. Operating and Maintenance Expense, including bad debts expense and after pro forma adjustments was \$491,868. Taxes other than Income Tax, including property tax, IURC fee, and utility receipts tax totaled \$226,566. Depreciation, net of amortization of Contributions in Aid of Construction was \$65,815. Amortization of Investment Tax Credit was \$(567). Federal and state income tax expense was \$(11,389) and \$(2,039) respectively. This resulted in total pro forma operating expenses under current rates of \$769,095 and a net operating income of \$61,204 as shown in the schedules attached hereto as Appendix A.

2. Agreed Water Rate Increase. Petitioner should be authorized to revise its water utility rates to produce \$176,004 of net operating income, which will require \$198,485 of additional water utility operating revenues over test year proforma revenues, a 24.02% increase in water utility revenues. The increase, computed as shown in Appendix A, is based on an original cost depreciated water utility rate base of \$2,180,964 and a rate of return of 8.07%, reflecting a 10.15% cost of equity and a 6.58% cost of long term debt. The \$114,800 difference

between proforma net operating income under present rates of \$61,204 and Petitioner's authorized operating income of \$176,004 was converted to a revenue increase by using a revenue conversion factor of 1.6933, as shown on Sch. 1W of Appendix A. The water rate increase authorized should be across the board by an equal percentage to all customers.

3. Sewer Utility Revenue and Expense under Current Rates. Petitioner's pro forma sewer utility operating revenue was \$1,497,005 under current rates. Operating and Maintenance Expense, including bad debts expense and after pro forma adjustments was \$475,106. Taxes other than Income Tax, including property tax, IURC fee, and utility receipts tax totaled \$233,378. Depreciation, net of amortization of Contributions in Aid of Construction was \$205,639. Amortization of Investment Tax Credit was \$(1,304). Federal and state income tax expense was \$106,255 and \$30,966 respectively. This resulted in total pro forma operating expenses under current rates of \$1,048,638 and a net operating income of \$448,367 as shown in the schedules attached hereto as Appendix A.

4. Agreed Sewer Rate Increase. Petitioner should be authorized to revise its sewer rates to produce \$488,209 of net operating income, which will require \$67,463 of additional sewer utility operating revenues over test year revenues, a 4.52% increase in total sewer operating revenues. This increase, as shown in Appendix A, is based on a sewer utility rate base of \$6,049,672 and a rate of return of 8.07%, reflecting a 10.15% cost of equity and a 6.58% cost of long term debt. The proforma net operating income difference of \$39,842 was converted to a revenue increase by using a revenue conversion factor of 1.6933. See Sch. 1S of Appendix A. The sewer rate increase authorized should be across the board by an equal percentage to all customers. Petitioner should also continue to use its present billing methodology rather than convert to a volumetric billing methodology based on water

consumption. Petitioner agrees that as part of its next general rate case, Petitioner shall provide a study to support a volumetric rate for sewer service for consideration by the Commission.

5. Remediation of Sewer Discharges. Petitioner recognizes an ongoing problem of sewer discharges from two of the manholes on its system, Nos. 306 and 307, within the Lakes of the Four Seasons subdivision. Petitioner has engaged engineers to study this problem and design a solution ("Remediation Project"), toward the end that discharges from these manholes will be eliminated during normal operating conditions. Normal operating conditions do not include, among other things, grease or any other foreign objects causing obstructions in any of the lines leading to these manholes. Twin Lakes has agreed to complete the design of the Remediation Project and file for construction permit(s) with the Indiana Department of Environmental Management by February 28, 2008, with the bidding process expected to be completed within sixty days of Twin Lakes' receipt of all necessary permits for the Remediation Project. Twin Lakes has acknowledged that time is of the essence and agrees to proceed with due diligence in order to complete the Remediation Project by December 31, 2008. To the extent matters beyond Twin Lakes' control cause a delay in the permitting and/or construction of the Remediation Project, then the December 31, 2008, completion date would be extended accordingly.

6. Subsequent Rate Relief. Twin Lakes agrees that, if it initiates a general request to increase its sewer rates in another case prior to completion of the Remediation Project and after implementing the rate adjustment called for in the Parties' settlement of the instant cause then higher sewer rates resulting from such a subsequent rate case would not take effect until completion of the Remediation Project. The Remediation Project will be considered complete upon inspection by Twin Lakes and release from construction to operations.

7. Restocking of Lakes. Twin Lakes agrees to make two payments of \$2,500.00 each to the Lakes of the Four Seasons Property Owners' Association ("LOFS"), with the first payment to be made within thirty days of the issuance by the Indiana Utility Regulatory Commission of a final order accepting the Parties' settlement of this cause, and the second payment to be made within twelve months of the first payment, for a total payment amount of \$5,000.00. LOFS agrees to use these payments to restock with fish one or more lakes within the LOFS subdivision.

8. Remedy for Breach. Should LOFS conclude that Petitioner is in breach of this Settlement, LOFS may seek redress from either a court of general jurisdiction or the Indiana Utility Regulatory Commission for such alleged breach.

9. Support for Settlement. The Parties agree that this Settlement is in the public interest and that the Indiana Utility Regulatory Commission ("Commission") should enter in the form proposed by the Parties a final order approving this Settlement. The testimony and exhibits prefiled in this Cause, along with the prefiled settlement testimony accompanying this Settlement, constitute sufficient evidence to support this Settlement, and such testimony and this Settlement should be admitted into evidence. The Parties hereby waive cross-examination of the witnesses giving such testimony.

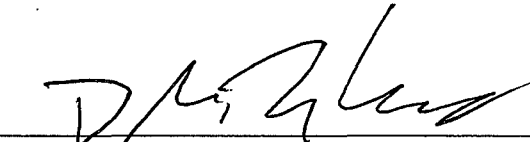
10. Non-Precedential Effect. This Settlement is entered into solely for purposes of this cause and shall not be cited by any Party against another Party in any future proceeding other than for the purpose of enforcing the terms of this Settlement.

11. Commission Approval of Settlement. If the Commission does not approve this Settlement without a material change unacceptable to the Parties, this Settlement shall be null and void.

Entered into as of the 3d day of July, 2007.

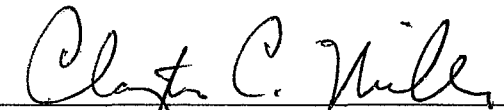
OFFICE OF UTILITY CONSUMER
COUNSELOR

By: _____


Daniel M. LeVay, Att'y No. 22184-49
Assistant Consumer Counselor

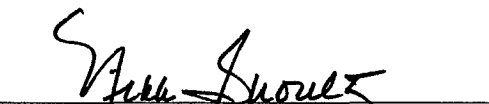
TWIN LAKES UTILITIES, INC.

By: _____


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LAKES OF THE FOUR SEASONS PROPERTY
OWNER'S ASSOCIATION

By: _____


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TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128OUCC's Revenue Requirement
Water

Description:	Supplemental Petitioner	Per OUCC	Per Settlement	Schedule Reference
Original Cost Rate Base	\$1,858,593	\$2,178,679	\$2,180,964	4W
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	160,582	166,669	176,004	
Less: Adjusted Net Operating Income	(53,163)	72,211	61,204	6W
Amount to Balance to Petitioner's numbers	17			
Additional NOI Required	213,762	94,457	114,800	
Gross Revenue Conversion Factor	1.81730	1.6933	1.6933	1W
Recommended Revenue Increase	\$388,470	\$164,041	\$198,485	
Petitioner's Calculated Percentage Increase (data request #44)	48.36%			
OUCC Percentage Increase - Calculated	48.30%	19.85%	24.02%	

Rate Impact - 13,500 gallons bimonthly:

	Current	Supplemental Petitioner	OUCC	Settlement
	\$43.74	\$64.89	\$52.42	\$54.24
Avg. per month		\$32.44	\$26.21	\$27.12

Gross Revenue Conversion Factor

Description	Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1 Gross Revenue Change	\$364,493	\$388,470	100.0000%	\$164,041	\$198,485
2 Bad Debts Charge	2,104	2,242	0.5788%	949	1,149
3 Subtotal			99.4212%		
4 IURC Fee (2007 Fiscal Year Ending) 0.1062098%	387	413	0.1062%	174	211
5 Subtotal			99.3150%		
6 State Utility Receipts Tax (1.4% of line 3)	5,073	5,407	1.3919%	2,283	2,763
7 Subtotal			97.9231%		
8 State Adjusted Gross Receipts Tax (8.5% of line 5)	30,341	32,336	8.4418%	13,848	16,756
Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)	12,136				
Unknown amount to balance (approx. 8% of revenue increase)		31,165			
9 Subtotal			89.4814%		
10 Federal Income Tax (at 34%)	106,925	113,959	30.4237%	49,907	60,387
11 Change In Operating Income	\$207,527	\$213,763	59.0577%	\$96,879	\$117,221
12 Gross Revenue Conversion Factor			1.6933		

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER
Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Water Revenues - Residential	\$1,636	\$2,677	\$2,677
Total Operating Revenue	<u>1,636</u>	<u>2,677</u>	<u>2,677</u>
Operating Expenses:			
Salaries & Wages	66,704	6,172	8,195
New employees allocated w/taxes and benefits			14,343
Payroll Taxes	4,935	512	907
Employee Benefits	6,368	0	0
Operating Exp chgd to Plant	247	(677)	(837)
Consumer Price Index Increase	10,088	0	0
Amortization of Rate Case Expense	1,687	(12,287)	(10,604)
Meter Reading Allocation		(6,709)	(6,709)
Bad Debts Expense		91	91
IURC Fee		3	3
Utility Receipts Tax		(25,055)	(25,055)
Depreciation	18,104	(9,873)	(9,873)
Amortization of Contributions in Aid of Construction	0	(41,235)	(41,235)
Income Taxes - Federal	(111,638)	(53,314)	(59,029)
Income Taxes - State	(38,969)	(21,960)	(23,522)
Total Operating Expense	<u>(42,474)</u>	<u>(164,332)</u>	<u>(153,325)</u>
Total Net Operating Income Adjustments	<u>\$44,110</u>	<u>\$167,009</u>	<u>\$156,002</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

OUCC's Revenue Requirement

Description:	<u>Sewer</u>			Sch Ref
	Supplemental Petitioner	Per OUCC	Per Settlement	
Original Cost Rate Base	\$5,530,819	\$6,071,559	\$6,049,672	4S
Times: Weighted Cost of Capital	8.64%	7.65%	8.07%	5
Net Operating Income Required	477,863	464,474	488,209	
Less: Adjusted Net Operating Income	322,148	478,392	448,367	6S
Amount to Balance to Petitioner's numbers	115	0	0	
Additional NOI Required	155,830	(13,917)	39,842	
Times: Gross Revenue Conversion Factor	1.75630	1.6933	1.6933	1S
Recommended Revenue Increase	\$273,684	(\$23,566)	\$67,463	
Petitioner's Calculated Percentage Increase (data request #44)	19.73%			
OUCC Percentage Increase - Calculated		-1.58%	4.52%	
Percentage Increase Requested	19.73%	-1.58%	4.52%	

Rate Impact		Supplemental Petitioner	Per OUCC	Per Settlement
Residential (Flat Rate - bimonthly)	<u>Current</u> 80.53	\$96.42		\$84.17
Commercial	200% of Water bill			
13,500 bi-monthly gallons			\$78.55	

Gross Revenue Conversion Factor

Description		Proposed Rates By Petitioner	Supplemental Petitioner	Factor Proposed By OUCC	Proposed Rates By OUCC	Proposed Rates Settlement
1	Gross Revenue Change	\$253,217	\$273,684	100.0000%	(\$23,566)	\$67,463
2	Bad Debts Charge	1,462	1,580	0.5784%	(136)	390
3	Subtotal			99.4216%		
4	IURC Fee (2007 Fiscal Year Ending)	0.1062%	269	0.1062%	(25)	72
5	Subtotal			99.3154%		
6	State Utility Receipts Tax (1.4% of line 3)	\$3,524.58	3,809	1.3919%	(328)	939
7	Subtotal			97.9235%		
8	State Adjusted Gross Receipts Tax (8.5% of line 5)	\$21,076.79	22,780	8.4418%	(1,989)	5,695
	Utility/Commission Tax (Pet. w/p [e]) (3.4% of line 7)	\$8,430.72	9,112			
	Unknown amount to balance (approx. 8% of revenue increase)					
9	Subtotal			89.4817%		
10	Federal Income Tax (at 34%)	\$74,274.61	80,278	30.4238%	(7,170)	20,525
11	Change In Operating Income			59.0579%	(\$13,917)	\$39,842
12	Gross Revenue Conversion Factor			1.6933		

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
Sewer
Reconciliation of Net Operating Income Statement Adjustments

Description:	Supplemental Petitioner	Per OUCC	Per Settlement
Operating Revenues:			
Sewer Revenues - Residential	(\$20,613)	(\$18,680)	(\$18,680)
Total Operating Revenue	<u>(20,613)</u>	<u>(18,680)</u>	<u>(18,680)</u>
Operating Expenses:			
Salaries & Wages	65,434	6,053	6,493
New employees allocated w/taxes and benefits			14,064
Payroll Taxes	4,841	502	771
Employee Benefits	6,249	0	0
Operating Expense chgd to Plant	242	(664)	(820)
Consumer Price Index Increase	8,431	0	0
Amortization of Rate Case Expense	1,655	(12,049)	(10,399)
Meter Reading Allocation		6,709	6,709
Bad Debts Expense		197	197
IURC Fee		(20)	(20)
Utility Receipts Tax		(45,302)	(45,302)
Depreciation	21,352	(6,543)	41,297
Amortization of CIAC		(78,426)	(93,365)
Income Taxes - Federal	(26,481)	35,224	20,188
Income Taxes - State	(22,998)	(3,738)	(7,847)
Total Operating Expense	<u>58,725</u>	<u>(98,058)</u>	<u>(68,033)</u>
Total Net Operating Income Adjustments	<u>(\$79,338)</u>	<u>\$79,378</u>	<u>\$49,353</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

Assets and Other Debits:

Fixed Assets:	Water	Sewer	Combined
Utility Plant In Service	\$5,113,324	\$11,649,676	\$16,763,000
Less: Accumulated Depreciation	1,200,765	2,652,667	3,853,432
Net Utility Plant In Service	3,912,559	8,997,009	12,909,568
Acquisition Adjustment	0	0	0
Accum. Amortization of Acquisition Adj.	0	0	0
Construction Work In Progress	38,805	225	39,030
Total Utility Plant In Service	3,951,364	8,997,234	12,948,598
Abandoned Plant			0
Total Plant	3,951,364	8,997,234	12,948,598
Other Assets and Investments	0	0	0
Current and Accrued Assets:			
Cash and Cash Equivalents			265
Accounts Receivable			423,487
Accounts Receivable - Other			
Amortizable Expenses			
Inventory			
Prepaid Taxes			
Total Current and Accrued Assets	0	0	423,752
Deferred Debits:			
Deferred Rate Case Expense (net of Amc	19,698	19,316	39,014
Deferred Tank Mtnce Exp (Net of Amort	86,945		86,945
Deferred Jetting Sewer Mains (Net of Amort)		6,723	6,723
Total Assets and Other Debits	\$4,058,007	\$9,023,273	\$13,505,032

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Balance Sheet as of June 30, 2006

<u>Liabilities and Stockholders Equity:</u>	<u>Water</u>	<u>Sewer</u>	<u>Combined</u>
Stockholders Equity:			
Common Stock			\$ 7,139,647
Undistributed Earnings			5,575,650
Current Income			
Total Stockholders Equity			<u>12,715,297</u>
Long Term Debt			
Total Long Term Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Current and Accrued Liabilities:			
Accounts Payable			8,830
Accounts Payable -Assoc. Companies			(6,349,826)
Customer Deposits			1,515
Customer Deposits - interest			3,453
Accrued Taxes - Indiana Gross			
Accrued Property Taxes			427,439
Accrued Taxes - Indiana Sales Tax			
Accrued Taxes - Federal Income Tax			
Accrued Interest			
Total Current and Accrued Liabilities			<u>(5,908,589)</u>
Deferred Credits:			
Unamortized ITC			82,913
Deferred Tax - Federal			881,023
Deferred Tax - State			<u>(52,852)</u>
Total Deferred Credits			<u>911,084</u>
Contribution In Aid Of Construction - Water	2,058,911		2,058,911
Contribution In Aid Of Construction - Sewer		3,730,294	3,730,294
Total Liabilities and Stockholders Equity	<u>\$ -</u>	<u>\$ 3,730,294</u>	<u>\$ 13,506,997</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Income Statement For The Year Ended June 30, 2006

<u>Operating Revenues:</u>	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Water/Sewer Revenues Residential	\$ 815,906	\$1,504,196	\$2,320,102
Water/Sewer Revenues Commercial			0
Late Fees	7,814	7,662	15,476
Miscellaneous Revenues	(18)	(17)	(35)
Connection Meter Fees	227	223	450
New Customer Charge	3,282	3,218	6,500
NSF Charge	121	119	240
Cut-off Charge	290	285	575
Total Operating Revenues	823,702	1,515,685	2,343,308
<u>Operating Expenses:</u>			
Salaries and Wages	154,311	\$151,316	305,627
Payroll Taxes (from pet wkp [e] on taxes)	12,795	12,547	25,342
Pension & Other Benefits	28,057	27,513	55,570
Purchased Power	108,298	66,327	174,625
Maintenance & Repair	73,835	78,118	151,953
Maintenance Testing	8,134	33,366	41,500
Meter Reading	13,550	0	13,550
Chemicals	19,344	18,968	38,312
Transportation	24,134	23,665	47,799
Operating Expense charged to Plant	(19,758)	(19,375)	(39,133)
Outside Services - Other	7,787	7,636	15,423
Office Supplies & Other Office Expenses	13,869	13,600	27,469
Rent	133	130	263
Insurance	21,209	20,797	42,006
Office Utilities	8,008	7,853	15,861
Regulatory Commission Expense (42488 rate case amort)	22,894	22,449	45,343
Uncollectible Accounts	4,647	8,395	13,042
Miscellaneous	(15,914)	(15,605)	(31,519)
Total Operations and Maintenance Expenses	485,333	457,700	943,033
Depreciation	116,923	257,706	374,629
Amortization of CIAC	0	0	0
Net Operating Income Before Income Taxes	221,446	800,279	1,021,726
Taxes other than Income:			
Utility/Commission Tax	879	1,588	2,467
Property and other general taxes (Corp)	94,625	92,789	187,414
Real Estate Tax	10,015	9,820	19,835
Personal Property Tax	109,482	107,357	216,839
Utility Receipts Tax	36,606	66,133	102,739
Franchise Tax (SOS report)	2	2	4
Amortization of Investment tax credit	(567)	(1,304)	(1,871)
Income Taxes - Federal	47,640	86,067	133,707
Income Taxes - State	21,483	38,813	60,296
Total Operating Expenses	791,189	1,116,671	433,148
Net Income from operations	\$ 32,513	\$ 399,014	\$431,527
<u>Other Deductions:</u>			
Interest during construction	303	696	999
Interest on Debt	83,215	191,852	275,067
Net Corporate Income	(51,005)	206,466	155,461

TWIN LAKES UTILITIES, INC.

CAUSE NO. 43128

Water

Calculation of Rate Base as of June 30, 2006

Updated Through December 31, 2006

Description:	6/30/06 Petitioner	Supplemental Petitioner	OUCC	Settlement
Utility Plant In Service as of 6/30/06	\$5,113,324	\$5,113,324	\$5,113,324	\$5,113,324
UPIS items added 7/1/06 - 12/31/06 posted to books		\$209,419	\$209,419	\$209,419
Less: Accumulated Depreciation	1,200,765	1,200,765	1,200,765	1,200,765
Net Utility Plant in Service 6/30/06	3,912,559	\$4,121,978	\$4,121,978	\$4,121,978
Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	90,311	121,069	121,069	121,069
Add: Additions through March 2007 (General Ledger Addition)	84,849	0		
Less: Additional Depreciation through 12/31/06 (6 months)	(32,519)	(39,896)	53,525	53,525
Contributions in Aid of Construction	2,058,911	2,061,761	2,061,761	2,061,761
Accumulated Amortization of CIAC			(475,043)	(475,043)
Deferred Income Taxes	434,749	430,948	430,947	430,947
Unamortized Income Tax Credits			41,863	41,863
Customer Deposits	765	765	765	765
Total Net Utility Plant In Service	1,625,813	1,789,469	2,129,229	2,129,229
Add: Working Capital (See Below)	68,749	69,124	49,449	51,735
Total Original Cost Rate Base	\$1,694,562	\$1,858,593	\$2,178,679	\$2,180,964

Working Capital Calculation

Description	Petitioner	OUCC	Settlement
Pro-forma Present Rate Operations and Maintenance Expense	\$572,365	467,698	485,981
Less: Payroll Taxes	17,730	13,307	13,307
Less: Bad Debts (Uncollectable Accounts) Expense	4,647	4,647	4,647
Less: Purchased Power		54,149	54,149
Adjusted Operation and Maintenance Expense	549,988	395,595	413,879
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	\$68,749	\$49,449	\$51,735

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Sewer

Calculation of Rate Base as of June 30, 2006
Updated Through December 31, 2006

Description:	6/30/06 Petitioner	12/31/06 Petitioner	Per OUCC	Settlement
Utility Plant In Service as of 6/30/06	\$11,649,676	\$11,649,676	\$11,649,676	\$11,649,676
UPIS items added 7/1/06 - 12/31/06 posted to books		\$382,124	\$382,124	\$382,124
Less: Accumulated Depreciation	2,652,667	2,652,667	2,652,667	2,652,667
Net Utility Plant in Service 6/30/06	8,997,009	9,379,133	9,379,133	9,379,133
Add: Capital items Added 7/1/06 - 12/31/06 net of retirements (not posted to books)	66,026	77,907	77,907	77,907
Additions through March 2007 (General Ledger Additions)	164,256	0		
Less: Additional Depreciation assets through 12/31/06 (6 months)	(248,854)	(133,990)	125,581	149,502
Contributions in Aid of Construction	3,730,294	3,734,590	3,734,590	3,734,590
Accumulated Amortization of CIAC			(856,802)	(856,802)
Deferred Income Taxes (69.18%)	393,422	389,717	389,717	389,717
Unamortized Income Tax Credits			41,050	41,050
Customer Deposits	750	750	750	750
Total Net Utility Plant In Service	5,351,679	5,465,973	6,022,153	5,998,233
Add: Working Capital (See Below)	64,846	64,846	49,406	51,439
Total Original Cost Rate Base	\$5,416,525	\$5,530,819	\$6,071,559	\$6,049,672

Working Capital Calculation

Description	Petitioner	OUCC	Settlement
Pro-forma Present Rate Operations and Maintenance Expense	\$544,552	\$449,856	\$466,123
Less: Payroll Taxes	17,388	13,049	13,049
Less: Bad Debts (Uncollectable Accounts) Expense	8,395	8,395	8,395
Less: Purchased Power		33,164	33,164
Adjusted Operation and Maintenance Expense	518,769	395,248	411,516
Times: 45 day method	0.125	0.125	0.125
Working Capital Requirement	\$64,846	\$49,406	\$51,439

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Capital Structure

Description	Amount	Percent of Total	Cost	Weighted Cost
Utilities, Inc. & Subsidiaries				
Common Equity	129,744,867	41.89%	10.15%	4.25%
Long Term Debt	180,000,000	58.11%	6.58%	3.82%
Total	309,744,867	100.00%		8.07%

Synchronized Interest Calculation

Water

Description:

Total Original Cost Rate Base-See Sch. 4W

Times: Weighted Cost of Debt

Synchronized Interest Expense

As Of
12/31/2006
\$2,180,964
3.82%
\$83,313

Synchronized Interest Calculation

Sewer

Description:

Total Original Cost Rate Base-See Sch. 4S

Times: Weighted Cost of Debt

Synchronized Interest Expense

As Of
12/31/2006
\$6,049,672
3.82%
\$231,097

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER
Pro-forma Net Operating Income Statement

<u>Description:</u>	<u>Year Ending 6/30/06</u>	<u>Adjustments</u>	<u>Sch. Ref.</u>	<u>Pro-forma Present Rates</u>	<u>Adjustments</u>	<u>Sch. Ref.</u>	<u>Pro-forma Proposed Rates</u>
Operating Revenues:							
Water Revenues Residential	\$802,917	\$1,636	7-1	\$ 805,594	\$193,489	1	\$999,083
		\$1,040	7-2				
Water Revenues Commercial	12,989			12,989	3,120	1	16,109
Late Fees	7,814			7,814	1,877	1	9,691
Miscellaneous Revenues	(18)			(18)			(18)
Connection Meter Fees	227			227			227
New Customer Charge	3,282			3,282			3,282
NSF Charge	121			121			121
Cut-off Charge	290			290			290
Total Operating Revenues	<u>827,623</u>	<u>2,677</u>		<u>830,300</u>	<u>198,485</u>		<u>1,028,785</u>
Operating Expenses:							
Operations and Maintenance	480,686			485,981			485,981
Salaries & Wages		8,195	8-1				
New employees allocated w/taxes and benefits		14,343	8-1(a)				
Payroll Taxes		907	8-2				
Employee Benefits		0	8-3				
Operating Exp chgd to Plant		(837)	8-4				
Amortization of Rate Case Expense		(10,604)	8-6				
Meter Reading		(6,709)	8-7				
Bad Debts Expense	4,647	91	8-5	4,738	1,149	1	5,886
Taxes other than Income:							
Utility/Commission Tax	879	3	8-7	882	211	1	1,093
Property and other general taxes (Corp)	94,625			94,625			94,625
Real Estate Tax	10,015			10,015			10,015
Personal Property Tax	109,482			109,482			109,482
Utility Receipts Tax	36,606	(25,055)	8-10	11,551	2,763	1	14,314
Franchise Tax (SOS report)	2			2			2
Depreciation	116,923	(9,873)	8-8	107,050			107,050
Amortization of CIAC	0	(41,235)	8-9	(41,235)			(41,235)
Amortized Investment Tax Credit	(567)			(567)			(567)
Income Taxes - Federal	47,640	(59,029)	8-11	(11,389)	60,387	1	48,997
Income Taxes - State	21,483	(23,522)	8-12	(2,039)	16,756	1	14,717
Total Operating Expenses	<u>922,420</u>	<u>(153,325)</u>		<u>769,095</u>	<u>81,265</u>		<u>850,360</u>
Net Operating Income	<u>(\$94,797)</u>	<u>\$156,002</u>		<u>\$61,204</u>	<u>\$117,221</u>		<u>\$178,425</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
SEWER
Pro-forma Net Operating Income Statement

Description:	Year Ending 6/30/2006	Adjustments	Sch. Ref.	Pro-forma Present Rates	Adjustments	Sch. Ref.	Pro-forma Proposed Rates
Operating Revenues:							
Sewer Revenues - Residential	\$1,451,388	(\$20,613) 1,933	7-1 7-2	\$ 1,432,708	\$64,730	1	\$1,497,438
Sewer Revenues - Commercial	52,808			52,808	2,386	1	55,194
Late Fees	7,662			7,662	346	1	8,008
Miscellaneous Revenues	(17)			(17)			(17)
Connection Meter Fees	223			223			223
New Customer Charge	3,218			3,218			3,218
NSF Charge	119			119			119
Cut-off Charge	285			285			285
Total Operating Revenues	<u>1,515,685</u>	<u>(18,680)</u>		<u>1,497,005</u>	<u>67,463</u>		<u>1,564,468</u>
Operating Expenses:							
Operations and Maintenance	449,305			466,123			466,123
Salaries & Wages		6,493	8-1				
New employees allocated w/taxes and benefits		14,064	8-1(a)				
Payroll Taxes		771	8-2				
Employee Benefits		0	8-3				
Operating Expense chgd to Plant		(820)	8-4				
Amortization of Rate Case Expense		(10,399)	8-6				
Meter Reading		6,709	8-7				
Bad Debts Expense	8,395	197	8-5	8,592	390	1	8,983
IURC Fee							
Taxes other than Income:							
Utility/Commission Tax	1,588	(20)	8-8	1,568	72	1	1,640
Property and other general taxes (what is this?)	92,789			92,789			92,789
Real Estate Tax	9,820			9,820			9,820
Personal Property Tax	107,357			107,357			107,357
Utility Receipts Tax	66,133	(45,302)	8-11	20,831	939	1	21,770
Franchise Tax (SOS report)	2			2			2
Depreciation	257,706	41,297	8-8	299,003			299,003
Amortization of CIAC	0	(93,365)	8-10	(93,365)			(93,365)
Amortized Investment Tax Credit	(1,304)			(1,304)			(1,304)
Income Taxes - Federal	86,067	20,188	8-12	106,255	20,525	1	126,779
Income Taxes - State	38,813	(7,847)	8-13	30,966	5,695	1	36,661
Total Operating Expenses	<u>1,116,671</u>	<u>(68,033)</u>		<u>1,048,638</u>	<u>27,621</u>		<u>1,076,259</u>
Net Operating Income	<u>\$399,014</u>	<u>\$49,353</u>		<u>\$448,367</u>	<u>\$39,842</u>		<u>\$488,209</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Revenue Adjustments

(1)

Customer Normalization

To adjust test year residential revenue for customer additions during the test year (7/1/05 - 6/30/06).

	Water	Sewer
Pro forma	\$817,542	\$1,483,583
Less Test Year (sch 2)	815,906	1,504,196
Adjustment - Increase	\$1,636	(\$20,613)

(2)

Customer Growth Revenue Updated to December 31, 2006

To adjust for growth through December 31, 2006 (Source: Data Request Response)

Residential

	Water	Sewer
Customers as of 12/31/06	3,070	3,058
Less Customers as of 06/30/06	3,066	3,054
Growth since test year	4	4
Times Average Bill (annual):		
Avg Bi-monthly usage (1,000 gallons)	13.33	
Bill for avg gallons (13.33 * 2.27)+13.09	\$43.35	
Times Six billings per year	x 6	
Annual average residential - current price	\$260.10	\$483.18
Revenue Adjustment based on Fixed, Known, Measurable Growth	\$1,040	\$1,933

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(1) <u>Wages - Settlement</u>			
Based on Petitioner's requested salaries and wages in Cause 42488, adjusted for 4% wage increase each year.			
	Alloc to Twin Lakes	50.49% Water	49.51% Sewer
From Petitioner's Request in 42488	\$273,807	\$138,911	\$134,896
2004 - 4% increase	\$284,759	144,467	140,292
2005 - 4% Increase	\$296,150	150,246	145,904
2006 - 4% Increase	\$307,996	156,256	151,740
2007 - 4% Increase	\$320,315	162,506	157,809
Less: Test Year	\$305,627	154,311	151,316
Adjustment	\$14,688	8,195	6,493

(1a) <u>Additional Employees allocated</u>			
<u>Salaries:</u>	<u>Before Allocation</u>		
		Alloc to	50.49% 49.51%
		Twin Lakes	Water Sewer
Administrative Assistant	\$36,400		
Regional Director - Mid-west	67,600		
Taxes - FICA, FUTA, SUTA	8,446		
Insurance, Pension, Benefits	16,208		
Total	128,654		
Times Allocation % to Twin Lakes	22.08%		
New Employees costs as allocated		\$28,407	14,343 14,064

(2) <u>Payroll Tax</u>			
To adjust payroll tax to <i>pro forma</i> levels. (Based on Adjustment 1 salaries as adjustment 1a includes payroll taxes.)			
	Alloc. To Twin Lakes	50.49% Water	49.51% Sewer
Pro-Forma Salaries & wages	\$320,315	\$162,506	\$157,809
times employer's FICA rate	7.65%	7.65%	7.65%
Pro forma FICA tax	\$24,504	\$12,432	\$12,072
Plus: FUTA	421	\$212	\$208
Plus: SUTA	2,095	\$1,058	\$1,037
Pro Forma Payroll Taxes	\$27,020	\$13,702	\$13,318
Less: Test Year Payroll Tax Expense	\$25,342	\$12,795	\$12,547
Adjustment - Increase/(Decrease)	\$1,678	\$907	\$771

(3) <u>Employee Benefits</u>			
Adjust benefits to <i>pro forma</i> amount			
	Alloc. To Twin Lakes	50.49% Water	49.51% Sewer
Benefits allocated to water and sewer	\$55,570	\$28,057	\$27,513
Less Test Year Expense	55,570	28,057	27,513
Adjustment to test year expense	\$0	\$0	\$0

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(4)

Capitalized Payroll, Payroll Taxes and Benefits

Adjust Operating Expense for amount of payroll and payroll related expense items anticipated to be capitalized. (Based on capitalization ratios from test year)

Test year operating expense charged to plant in test year (Petitioner's schedule B, page 1 of 4 "Per Books")	(\$39,133)
Divide by test year salaries, taxes, and benefits (Petitioner's schedule B, page 1 of 4 "Per Books")	386,539
Percentage of test year salaries, taxes and benefits that were capitalized.	-10.12%

Pro Forma salary, taxes and benefits (#1,2 & 3 above)	\$402,906
Times capitalization percentage from above	-10.12%
Pro forma capitalized payroll, payroll taxes and benefits	(\$40,790)

	Total	Water 50.49%	Sewer 49.51%
Pro forma	(\$40,790)	(\$20,595)	(\$20,195)
Less test year	(\$39,133)	(\$19,758)	(\$19,375)
Adjustment to test year	(\$1,657)	(\$837)	(\$820)

(5)

Bad Debts Expense

	Water	Sewer
Test Year rate revenue	\$802,917	\$1,451,388
Test Year Bad Debts (Uncollectible Accounts)	4,647	8,395
Uncollectible Percentage Calculated	0.5788%	0.5784%

	Pro Forma Current Rates	
Pro Forma Revenue	818,583	1,485,516
Times Uncollectible Percentage above	0.5788%	0.5784%
Pro Forma Proposed bad debts (uncollectible Accounts)	4,738	8,592
Less: Pro Forma Proposed bad debts	4,647	8,395
Adjustment - Increase	91	197

(6)

Rate Case Amortization

To adjust for unamortized rate case expense.	Total	50.49% Water	49.51% Sewer
Legal Fees (Clayton Miller - Bakers & Daniels, LLP)	\$40,000	\$20,196	\$19,804
Customer Notice:			
Postage (3,104 notices x 39¢)	1,211	611	599
Paper Stock (3,104 notices x .0526¢)	163	82	81
	1,374	694	680
Travel			
Gasoline (xxx miles * \$2.50/gal / 20 mpg)	72	36	35
Hotel/Accommodations (2 people @\$120 per night x 4 nights)	960	485	475
Rental Cars (\$200 per trip x 2 trips)	400	202	198
	1,432	723	709
Water Service Co. Personnel:	Hrs rate Amount\$		
Steve Lubertozzi	30 \$89 \$2,670	1,348	1,322
K. Wentz	25 45 1,125	568	557
Michael Dryjanski	200 57 11,400	5,756	5,644
LS	100 43 4,300	2,171	2,129
LY	40 25 1,000	505	495
MM	40 34 1,360	687	673
JB	40 29 1,160	586	574
Total WSC Personnel	23,015	11,620	11,395
Cost of Capital Witness (P. Ahern)	7,000	3,534	3,466
Costs of Mailing and Copies	200	101	99
Unamortized amount of prior rate case expense (the balance will be fully amortized in April, 2007)			
Cost of current and unamortized rate case expense	73,020	36,868	36,152
Amortized over 3 years	3	3	3
pro forma proposed rate case expense	24,340	12,289	12,051
Less: Test Year	45,343	22,894	22,449
Adjustment - Decrease	\$ (21,003)	\$ (10,604)	\$ (10,399)

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(7)
Meter Reading Allocation

To spread meter reading expenses between water and sewer utilities. This adjustment reflects OUCC recommendation to charge for sewer service based on metered water usage.

	50.49% Water	49.51% Sewer
Pro Forma Meter Reading expense (based on test year total amount)	\$6,841	\$6,709
Less Test Year	13,550	0
Adjustment - Increase/(Decrease)	<u>(\$6,709)</u>	<u>\$6,709</u>

(8)
IURC Fee

To normalize Utility Regulatory Commission Fees.

	Water	Sewer
Additional Revenues	2,677	(\$18,680)
Rate 0.1062098%	0.1062098%	0.1062098%
Adjustment - Increase (decrease)	<u>\$2.84</u>	<u>(\$19.84)</u>

(9)
Depreciation Expense

To update depreciation expense, reflecting additional plant and authorized depreciation rates.

	Water	Sewer
Utility Plant in Service per books - 06/30/06	\$5,113,324	\$11,649,676
Add: Assets placed in service from 7/1/06 through 12/31/06	330,488	460,031
Less: Land	91,290	149,576
Total Depreciable Plant in Service	<u>5,352,522</u>	<u>11,960,131</u>
Depreciation Rate (Composite Rate approved by Commission)	2.00%	2.50%
Pro-Forma Plant Depreciation expense	107,050	299,003
Less: Test Year	116,923	257,706
Adjustment - Decrease	<u>(\$9,873)</u>	<u>\$41,297</u>

(10)
Amortization of CIAC

To amortize Contributions in Aid of Construction.

	Water	Sewer
CIAC per books 12/31/06 (credit balance)	(\$2,061,761)	(\$3,734,590)
Times depreciation rate of assets	2.00%	2.50%
Amortization of CIAC	<u>(\$41,235)</u>	<u>(\$93,365)</u>
Less: Test Year	\$0	\$0
Adjustment - Decrease Expense	<u>(\$41,235)</u>	<u>(\$93,365)</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128
WATER & SEWER
Expense Adjustments

(11)

Utility Receipts Tax

To adjust taxes to current conditions.

	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of \$1000 exemption	Taxable Amount	Times Rate	Adjustment
<u>WATER</u>						
Utility Receipts Tax	\$830,300	4,738	\$500	\$825,062	1.40%	\$11,551
Less: Test Year						36,606
Adjustment - Decrease						<u>(\$25,055)</u>

	Pro Forma Gross Receipts	Less Bad Debts	Less 1/2 of \$1000 exemption	Taxable Amount	Times Rate	Adjustment
<u>SEWER</u>						
Utility Receipts Tax	\$1,497,005	8,592	\$500	\$1,487,913	1.40%	\$20,831
Less: Test Year						66,133
Adjustment - Decrease						<u>(\$45,302)</u>

(12)

Federal Income Taxes

To adjust Federal Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Total Revenue	\$ 830,300	\$1,497,005
Less:		
Operation & Maintenance Expenses	485,981	466,123
Bad Debts Expense	4,738	8,592
Synchronized Interest	83,313	231,097
Depreciation & Amortization	65,248	204,335
Taxes other than Income (other than URT)	215,005	222,547
Net income before income taxes	(23,986)	364,310
Indiana Utility Receipts Tax	11,551	20,831
Indiana Adjusted Gross Income Tax	(2,039)	30,966
Federal Taxable Income	(33,497)	312,514
Federal Tax Rate	34.00%	34.00%
Sub-total	(11,389)	106,255
Less: Test Year	47,640	86,067
Adjustment - Increase (decrease)	<u>\$ (59,029)</u>	<u>\$ 20,188</u>

(13)

State Income Tax

To adjust State Income Taxes to Pro-forma Present Rate amount.

	Water Pro-Forma Present Rates	Sewer Pro-Forma Present Rates
Federal Taxable Income	(33,497)	312,514
Add: Taxes Based on Income:		
Utility Receipts Tax	11,551	20,831
State Adjusted Gross Income Tax	(2,039)	30,966
State Taxable Income	(23,986)	364,310
Rate	8.50%	8.50%
Indiana Adjusted Gross Income Tax	(2,039)	30,966
Less: Test Year	21,483	38,813
Adjustment - Increase (decrease)	<u>\$ (23,522)</u>	<u>\$ (7,847)</u>

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Water
Current and proposed rates

Base Facility Charge

Meter Size	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
	Base Facility Charge	Base Facility Charge	Base Facility Charge	Base Facility Charge
5/8" & 3/4"	\$13.09	\$19.02	\$15.62	\$16.23
1"	32.72	47.55	39.05	40.58
1 1/2"	65.44	95.10	78.11	81.16
2"	104.71	152.17	124.98	129.86
3" not currently needed		0.00	0.00	0.00
4" not currently needed		0.00	0.00	0.00
6" not currently needed		0.00	0.00	0.00

Volume Charge

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Per 1,000 gallons	\$2.27	\$3.30	\$2.71	\$2.82
billed bi-monthly				

Unmetered Water Service

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat rate for unmetered public drinking fountain	\$34.47	\$50.09	\$41.14	\$42.75

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	\$20.00	\$20.00	\$20.00	\$20.00
NSF check charge	\$10.00	\$10.00	\$10.00	\$10.00
Meter fee (Outside Reader)	\$35.00	\$35.00	\$35.00	\$35.00
Reconnection charge:				
If service is disconnected by the Company for good cause	\$25.00	\$25.00	\$25.00	\$25.00
If service is disconnected at the customer's request	\$25.00	\$25.00	\$25.00	\$25.00

(plus the base facility charge for
the period of disconnection if the
customer asks to be reconnected
within 9 months of disconnection)

Connection Charge (in addition to new customer charge):

Residential	\$475	\$475	\$475	\$475
Commercial (5/8" meter)	\$475	\$475	\$475	\$475
Commercial (larger than 5/8" meter)	Greater of \$475 or actual cost of meter and installation			

TWIN LAKES UTILITIES, INC.
CAUSE NO. 43128

Sewer

Current and Proposed Rates

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
Flat Rate Sewer - Residential	\$80.53	\$95.23		\$84.17
Per 1,000 gallons			\$5.82	
Commercial - minimum	\$73.82	\$94.55		\$77.16
Commercial - above minimum	200% of water bill			

Billings are bi-monthly

Service Charges

	Current Rates	Petitioner Proposed	OUCC Proposed	Settlement
New Customer charge	\$20.00	\$20.00	\$20.00	\$20.00
NSF check charge	\$10.00	\$10.00	\$10.00	\$10.00

Reconnection charge:

Actual cost of disconnection and
reconnection, the estimated cost of which
will be furnished to customer with cut-
off notice

Connection Charge (in addition to new customer charge):

Residential	\$716	\$716	\$716	\$716
Commercial (5/8" meter)	\$716	\$716	\$716	\$716
Commercial (larger than 5/8" meter)	Greater of \$716 or actual cost of meter and installation			